



STAFF REPORT

Proposal to modify the administration of the existing Homebuyers Assistance Program to improve program operation

Honorable Chair and Directors:

Background

The “Home Buyer Assistance Program” is a program the Agency has offered since 1996 to provide financial assistance in the form of long term, low interest loans to qualified homebuyers in Belmont. Funds are available to assist with the purchase of a single-family residence, townhome or condominium from the Agency’s low moderate income (LMI) set-aside account. Belmont staff administers the program and the County of San Mateo, Office of Housing, manages loan-processing operations. Due to substantial, unanticipated interest in the program experienced the past few months, we are recommending changes to improve the administration and implementation of the program.

Discussion

Prior to the current year, the program experienced lackluster performance with few loans granted. As a result, and based on the advice of the County who assists in program marketing, the Homebuyer Assistance program was modified by the Agency in April of 2003 to improve its attractiveness with the following changes:

- Increase the loan percentage (15% to 20%)
- Create an administrative Loan Review Committee (Assistant City Manager, Finance Director, Community Development Director) to approve the loans
- Create an equity sharing loan payback option.

These changes, combined with a favorable lending environment, tight housing market and improved program marketing have led to significant interest in the program. As a consequence, this loan program was over-subscribed. For example, the historical trend was to approve one or two loans per year, and the loan committee has considered five loans this year. Another factor that led to over-subscription is that the most recent loans included zero-down financing package: The bank would loan 80%, the Belmont RDA would loan 20% and the applicant would put in nothing, except closing costs. Staff was concerned that this did not meet the intent of the

program, because we believed a down payment was expected. However, Belmont's rules are vague. The eligibility requirements state in part that, "*You must have sufficient assets to pay down payment and closing costs required by the primary lender.*" (emphasis added) What we have learned is that primary lenders are willing to accept ZERO down payments, when the City is putting up twenty percent.

Because of the over subscription, staff decided to suspend the program at least until the new fiscal year, but also until the RDA Board could review its rules to address the zero-down issue. We notified the County on March 10th that the program would be suspended. However, at least two applicants had already gone into escrow. The administrative loan review committee agreed to consider these outstanding loans because 1) the money is being spent on loans, which are eventually returned to the LMI fund, 2) the program promotes both homeownership and improving the City's housing stock, and 3) the State requires that the Agency put them to use – we will be able to report this loan activity as a positive aspect of our annual RDA reports, and 4) there is contractual commitment to consider their application and no basis to deny the loan at this stage of the process.

Analysis of Administrative Procedure

Currently, application materials are submitted to City staff for review and planning staff generates a letter of preliminary approval, incomplete, or denial. The preliminary approval letter states:

"Your application to participate in the Homebuyer Assistance Program has been approved based on the initial information you have provided. You may now look for a home in Belmont. Please call me when you have made an offer and I will forward you additional paperwork required for the final qualification and loan transaction."

The approved application and material are forwarded to the County representative in anticipation of formal loan package. The County representative receives and reviews the primary lender's loan package for compatibility with our program rules and provides a loan recommendation to our Loan Review Committee. The Committee convenes to review the loan materials and signs the loan approval.

The Loan Review Committee has identified two shortfalls with this process. First, there is no time limit (expiration date) for the approval. Second, there is no process in place to tie an approval to the budget. Therefore, we had approximately 25 approved applications with no idea if a loan request would come in, and for how much.

In response, we have changed the administrative process to include the following steps:

- New required milestones (see attached flow chart) to include participation in a required homebuyer orientation and acquisition of a pre-approval letter from a lender.
- Creation of an applicant waiting list
- Staff will encumber funds from the budget for a set limited period.
- Applicant meets all the set timelines, qualifications, and opens escrow on a property, and then the loan money will be distributed.

- At any point in the qualification period in which the applicant drops out, the next person on the waiting list enters the process (see Attachment A for a flowchart). The funds will be disencumbered from the previous applicant and encumbered to the new applicant.

Policy questions to be considered at later date

The quantity and nature of recent loan requests have given rise to a need for additional policy direction from the Redevelopment Agency Board. In particular, recent loans included financing (zero-down financing package) the program did not anticipate. At a future meeting, staff will suggest the Agency consider policy changes to the program, such as:

- Requiring a minimum down payment from the applicant (1% - 5%).
- Re-instating a maximum loan amount (20% of the purchase price and up to \$150, 000).
- Considering the annual budget for the Homebuyer Assistance Loan for FY 04/05.

In the mean time, the program remains suspended until sometime after the beginning of the new fiscal year, when the Agency resolves policy concerns.

Fiscal Impact

The annual budget for the program is \$295,000, and the Belmont RDA has approved five loans, totaling over \$577,200. Sufficient monies are available in account 822-4633-9533-9030 (LMI Capital Projects) to fund the outstanding loans. The Directors were notified of staff's administrative fund transfer to cover the costs on March 26th and the transfer was made. Staff believes that these procedural amendments, discussed above, will improve our internal administrative procedures and avoid over subscription of the program.

Recommendation

Receive and file report. No other action is required at his time.

Alternative

1. Provide staff with other direction on program administration.

Attachment

1. Flow chart exhibit

Respectfully submitted,

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